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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR AUTHORIZATION TO
ACQUIRE OUT-OF-STATE RENEWABLE
RESOURCES.

DOCKET NO. E-01345A-05-0675

**COMMENTS OF WESTERN
RESOURCE ADVOCATES**

On September 22, 2005, Arizona Public Service Company (APS) filed an application requesting Commission authorization to acquire out-of-state renewable energy resources to meet its obligations under the rate case settlement approved in Decision No. 67744 (April 7, 2005). Western Resource Advocates (WRA) was a party to the rate case and was a signatory to the settlement.

WRA supported the renewable energy provision of the settlement agreement because low cost, stably priced renewable resources would serve as a hedge against high fossil fuel prices and because renewable resources provide environmental benefits. We submitted testimony on the price hedge and environmental benefits in both the direct testimony phase of the rate case and the settlement agreement phase.

WRA urges the Commission to approve APS' selection of renewable resources because APS has fulfilled the terms of the settlement agreement and Decision No. 67744 and because the resources selected by APS will provide a hedge against high fossil fuel costs.

The outcome of APS' solicitation process appears to be reasonable and beneficial:

- APS has selected 150 MW of renewable resources at a cost below the price cap. Acquisition of these resources would be the most significant step to date in serving Arizona consumers with renewable energy.
- The selected resources have fixed or stable prices that are not indexed to natural gas prices.
- APS had a range of choices, in that it reviewed 24 proposed projects located in Arizona and other states,¹ and selected a variety of technologies: biogas, geothermal, and wind energy facilities.

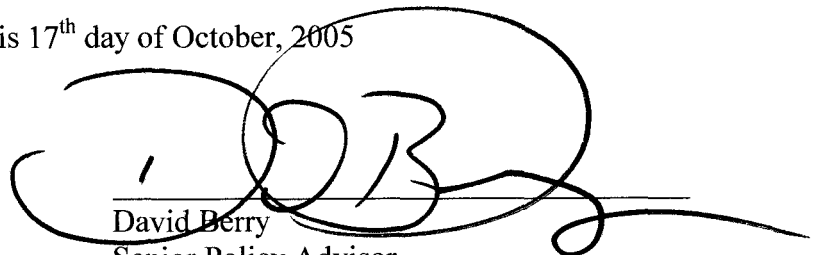
¹ As indicated in our brief filed in support of the settlement agreement, a Commission requirement that APS obtain resources from within the state may conflict with the Commerce Clause of the Constitution.

- Contractual provisions described by APS (e.g., stable prices, kWh pricing, length of the contracts) appear to be similar to transactions elsewhere in the West and the selection of resources reflects the current geography of commercially obtainable renewable resources in the southwest.²

An important feature of this solicitation is the resources' ability to reduce APS' and ratepayers' exposure to high fossil fuel costs. APS relies on natural gas to fuel its combustion turbines and combined cycle units and purchases power from others who generate electricity with natural gas. Natural gas prices are high today as indicated in Exhibit 1. To illustrate the cost exposure, the energy cost alone (excluding operating and maintenance costs and capacity costs) of burning natural gas priced at \$10 per MMBtu is \$0.08 per kWh in a combined cycle unit with a heat rate of 8,000 Btu per kWh and is \$0.10 per kWh for a combustion turbine with a heat rate of 10,000 Btu/kWh. Renewable energy will replace this expensive electricity, provide capacity value, and reduce air emissions. The stable price feature protects APS and its customers against the price volatility associated with natural gas markets.

In conclusion, WRA believes that APS' resource selection is in the public interest and recommends that the Commission approve APS' application so that ratepayers can begin to benefit as quickly as possible from the cost hedge and environmental improvements attributable to the resources APS has selected.

RESPECTFULLY SUBMITTED this 17th day of October, 2005



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Original and 13 copies of the foregoing were mailed this 17th day of October, 2005 to:

Docket Control
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² APS indicates that all the selected projects are new except for one geothermal project.

Exhibit 1

